

City of Pontiac
General Employees' Retirement System

Financial Report
with Required Supplemental Information
December 31, 2007

City of Pontiac General Employees' Retirement System

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Independent Auditor's Report

To the Retirement Board
City of Pontiac General Employees'
Retirement System

We have audited the accompanying statement of plan net assets of City of Pontiac General Employees' Retirement System (a component unit of the City of Pontiac, Michigan) as of December 31, 2007 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the General Employees' Retirement Board of the City of Pontiac. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Pontiac General Employees' Retirement System as of December 31, 2007 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 20, 2008

City of Pontiac

General Employees' Retirement System

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	2007	2006
Total assets	\$ 582,909,697	\$ 470,400,620
Total liabilities:		
Amounts due broker under securities lending agreement	94,224,009	-
Other liabilities	780,092	814,096
Total liabilities	95,004,101	814,096
Assets held in trust for pension benefits	\$ 487,905,596	\$ 469,586,524
Net investment gain	\$ 36,908,861	\$ 52,733,490
Net securities lending income	186,092	105,835
Contributions:		
Employee - Reinstated members	5,869	13,719
Employer	-	15,695
Other - Miscellaneous and litigation revenue	592,943	-
Retiree pension and annuity benefits	18,877,391	18,214,565
Benefits paid in excess of contributions	18,871,522	18,185,151
General and administrative expenses	497,302	524,984
Net increase in net assets held in trust	18,319,072	34,129,190

City of Pontiac General Employees' Retirement System

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The City of Pontiac General Employees' Retirement System (the "System") exists to pay benefits to its members and retirees. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

The System has established asset allocation policies which are expected to deliver sufficient investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the adopted asset allocation as of December 31, 2007:

Domestic equities	55%
International equities	10%
Domestic fixed income	25%
Real estate	5%
Private equity	5%

Investment Results

In 2007, defaulting sub-prime mortgages triggered a global credit crisis in the summer of 2007. In the aftermath, the equity markets declined, giving back a significant portion of the gains garnered in the first six months. Treasuries rallied as investors sought the safety of guaranteed bonds. The domestic equity market declined as compared to last year. The S&P 500 ended the year up 5.5 percent. The fixed income market, as measured by the Lehman Aggregate Index, returned 7.0 percent for the year. The international index, MSCI EAFE, was down 1.8 percent for the quarter and up 11.2 percent for the year. The total fund returned 9.3 percent for the year.

The System's total fund return must always be considered in a longer-term context. The asset allocation of each fund is built upon the foundation that the obligations of the System to pay the benefits promised to members and retirees are very long-term obligations. Accordingly, the board of trustees must make investment decisions that it believes will be the most beneficial to the System over many years, not just one or two years.

City of Pontiac

General Employees' Retirement System

Statement of Plan Net Assets December 31, 2007

Assets

Cash (Note 3)	\$ 100,748
Cash and investments held as collateral for securities lending (Note 3)	94,224,009
Accrued interest and dividends receivable	1,828,111
Accounts receivable:	
Due from City of Pontiac Police and Fire Retirement System	158,827
Due from GERS VEBA	75,448
Investments at fair value - Including loaned securities (Note 3):	
Money market funds	13,061,972
U.S. government agency notes and debentures	16,302,286
Corporate and other bonds	72,689,732
Equities	317,218,852
U.S. government agency mortgage pools	47,642,084
Commercial mortgage pools	3,504,587
Asset backed securities	3,127,014
Other	12,976,027
	<hr/>
Total investments	486,522,554
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Total assets	582,909,697

Liabilities

Due to City of Pontiac	67,184
Accounts payable	712,908
Amounts due broker under securities lending agreement (Note 3)	94,224,009
	<hr/>
Total liabilities	95,004,101

Net Assets Held in Trust for Pension Benefits (a schedule of funding progress is presented in the required supplemental information)

\$ 487,905,596

City of Pontiac

General Employees' Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2007

Additions

Investment income:	
Interest and dividend income	\$ 10,782,032
Net appreciation in fair value	28,721,286
Investment advisor fees	<u>(2,594,457)</u>
Net investment income	36,908,861
Securities lending income:	
Interest and fees	3,585,995
Less borrower rebates and bank fees	<u>(3,399,903)</u>
Net securities lending income	186,092
Contributions - Employee - Reinstated members	5,869
Other - Miscellaneous and litigation revenue	<u>592,943</u>
Total additions	37,693,765

Deductions

Retirees' pension benefits and retirement incentives	18,877,391
Other expenses	237,031
Charges from the City of Pontiac - Administrative expenses	<u>260,271</u>
Total deductions	<u>19,374,693</u>

Net Increase in Net Assets Held in Trust for Pension Benefits 18,319,072

Net Assets Held in Trust for Pension Benefits - January 1, 2007 469,586,524

Net Assets Held in Trust for Pension Benefits - December 31, 2007 \$ 487,905,596

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2007

Note 1 - Summary of Significant Accounting Policies

The City of Pontiac (the "City") sponsors and administers the General Employees' Retirement System (the "System") (a contributory single-employer retirement plan) that covers substantially all employees of the City, except police and fire employees.

Reporting Entity - The financial statements of the System are also included in the combined financial statements of the City as a pension trust fund. The assets of the pension trust fund include no securities of or loans to the City or any other related party.

Basis of Accounting - The System's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals or audited financial statements.

Note 2 - Plan Description and Contribution Information

At December 31, 2006, the date of the most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving pension benefits and terminated employees entitled to benefits but not yet receiving them	<u>1,329</u>
Current employees:	
Fully vested	128
Nonvested	<u>196</u>
Total current employees	<u>324</u>

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2007

Note 2 - Plan Description and Contribution Information (Continued)

Plan Description - The System provides retirement benefits, as well as death and disability benefits. Employees may receive cost of living adjustments as a percentage of their base amounts, pursuant to the collective bargaining agreement in effect at their date of retirement. The obligation to contribute to and maintain the System was established by city ordinance and negotiation with the employees' collective bargaining units.

Contributions - Plan members are not required to contribute. The City is required to contribute at an actuarially determined rate. In accordance with the actuary recommendation, the City did not make a contribution to the plan in the current year. Administrative costs are financed through investment earnings.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The System is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The System is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The System has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all allowable investments under Michigan Public Act 314 of 1965, as amended. The System's deposits and investment policies are in accordance with statutory authority. The System's cash and investments are subject to several types of risk, which are examined in more detail below:

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2007

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had approximately \$1,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Effective Duration
Asset-backed securities	\$ 3,127,014	1.86 years
Commercial mortgage pools	3,504,587	4.22 years
Corporate and other bonds	47,502,611	2.99 years
Corporate and other bonds	25,187,121	Unavailable
U.S. governmental agency mortgage pools:		
Government agencies	16,334,678	4.29 years
Government agencies	1,145,310	Unavailable
Government mortgage-backed securities	17,820,480	3.34 years
Government mortgage-backed securities	12,341,616	Unavailable
Other	2,081,653	1.86 years
Other	10,894,374	Unavailable
Money market funds	96,637	.0004 years

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2007

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System's investment policy limits investments in domestic fixed-income securities to not less than a CCC rating for an overall average quality of each high-yield portfolio; the overall quality rating of each high-grade portfolio must be AA or an equivalent rating; for domestic equity investments, the securities must be the equivalent of Standard & Poor's A1 or Moody's P-1; for global bonds, the overall average quality must be AA or higher. As of year end, the credit quality ratings of debt securities are as follows:

Investment Type	Fair Market Value	Moody's Rating
Asset-backed securities	\$ 2,955,438	Aaa
Asset-backed securities	171,576	Aa
Commerical mortgage pools	3,480,917	Aaa
Commerical mortgage pools	23,670	Unrated
Corporate bonds	3,170,358	Aaa
Corporate bonds	6,244,860	Aa
Corporate bonds	11,115,180	A
Corporate bonds	7,391,790	Baa
Corporate bonds	827,625	Ba
Corporate bonds	8,421,447	B
Corporate bonds	8,502,037	Caa
Corporate bonds	1,291,125	Ca
Corporate bonds	310,188	C
Corporate bonds	25,415,122	Unrated
U.S. governmental agency mortgage pools	15,730,802	Aaa
U.S. governmental agency mortgage pools	2,041,744	Unrated
Other	12,700,884	Unrated
Other	51,628	Aaa
Other	223,515	Aa
Money market funds	13,061,972	Unrated

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2007

Note 3 - Deposits and Investments (Continued)

Securities Lending

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2007, only United States currency was received as collateral.

The System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The General Employees' Retirement System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of December 31, 2007 was 27 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2007, the System had no credit risk exposure to borrowers. The collateral held and the fair market value of the underlying securities on loan for the System as of December 31, 2007 was \$94,224,009 and \$92,036,298, respectively.

Note 4 - Reserves

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of December 31, 2007, the System's reserves have been fully funded as follows:

Reserved for employee contributions	\$ 3,184,068
Reserved for retired employees	196,282,238

Required Supplemental Information

City of Pontiac

General Employees' Retirement System

Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/00*	\$ 378,063,942	\$ 217,942,909	\$ (160,121,033)	173.5	\$ 18,728,688	-
12/31/01**	395,743,819	227,901,435	(167,842,384)	173.6	19,887,803	-
12/31/02*	393,214,033	235,422,367	(157,791,666)	167.0	20,039,136	-
12/31/03	394,367,065	247,396,857	(146,970,208)	159.4	20,807,612	-
12/31/04	394,807,254	258,365,787	(136,441,467)	152.8	21,320,477	-
12/31/05	391,409,757	260,103,260	(131,306,497)	150.5	16,751,815	-
12/31/06	409,983,490	266,457,429	(143,526,061)	153.9	14,996,753	-

* Plan amended

City of Pontiac

General Employees' Retirement System

Required Supplemental Information Schedule of Employer Contributions

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2000	\$ 175,021	100.0
2001	139,583	119.0
2002	46,888	166.0
2003	10,608	100.0
2004	2,767	392.9
2005	16,926	100.0
2006	15,695	100.0
2007	-	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2006, the latest actuarial valuation, is as follows:

Actuarial cost method	Individual entry age actuarial cost
Amortization method	Level percent of payroll
Remaining amortization period	30 years, open
Asset valuation method	Market value with five-year smoothing of gains and losses
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.5% to 9.4%
*Includes inflation at	4.5%
Cost of living adjustments	2% (2.5% Court/MAPE) of original amount, subject to a maximum that varies by group

City of Pontiac Retirement and Retiree Health Care Systems

**Report to the City of Pontiac Boards
December 31, 2007**



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To the City of Pontiac Boards
City of Pontiac Retirement and Retiree
Health Care Systems

We have recently completed our audit of the basic financial statements of General Employees Retirement System, Police and Fire Retirement System, General Employees Prefunded Group Health and Insurance Plan and Trust, and Police and Fire Retiree Prefunded Group Health and Insurance Plan and Trust (the "Systems") for the year ended December 31, 2007. In addition to our audit reports, we are providing the following report on internal control, results of the audit, and informational comments and recommendations which impact the Systems.

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Results of the Audit	4-6
Other Comments and Recommendations	7-9

We are grateful for the opportunity to be of service to the Systems. Should you have any questions regarding the comments in this report, please do not hesitate to contact us.

Plante & Moran, PLLC

June 20, 2008

Report on Internal Control

To the City of Pontiac Boards
City of Pontiac Retirement and Retiree
Health Care Systems

Dear Trustees:

Beginning with the audit of City of Pontiac's Retirement and Retiree Health Care Systems (the "Systems") for the year ended December 31, 2007, national auditing standards require auditors to communicate matters to the governing body that may be useful in its oversight of the Systems' financial management. Specifically, we are required to report internal control issues to the governing body that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. In general, some of these items may have been discussed orally with management in the past.

In planning and performing our audit of the financial statements of the Systems as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of the Systems' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a significant deficiency:

To the City of Pontiac Boards
City of Pontiac Retirement and Retiree
Health Care Systems

During inquiries made of System personnel while performing required audit procedures, Plante & Moran, PLLC learned of benefit payment expenditures related to the Police and Fire VEBA Trust that were incurred in the current year; however, they were not yet recorded in the general ledger. A journal entry was subsequently prepared by System personnel during the audit. The System has a process in place to properly identify benefit payment expenditures. This process would have identified the underreporting in the subsequent period.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies that constitute a material weakness.

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

June 20, 2008

Results of the Audit

To the City of Pontiac Boards
City of Pontiac Retirement and Retiree
Health Care Systems

We have audited the financial statements of City of Pontiac Retirement and Retiree Health Care Systems (the "Systems") for the year ended December 31, 2007 and have issued our report thereon dated June 20, 2008. Professional standards now require (beginning with the audit of the year ended December 31, 2007) that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letters dated April 15, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Pontiac Systems. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in letter form and also in our discussion with Trustee Cochran about planning matters during the month of May 2008.

To the City of Pontiac Boards
City of Pontiac Retirement and Retiree
Health Care Systems

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Systems are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2007. We noted no transactions entered into by the Systems during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

To the City of Pontiac Boards
City of Pontiac Retirement and Retiree
Health Care Systems

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated June 20, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the organization's auditors.

This information is intended solely for the use of City of Pontiac boards of trustees and management of the City of Pontiac Systems and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Beth A. Bialy



Wendy N. Trumbull

Other Comments and Recommendations

Other Comments and Recommendations

In addition, we offer the following matters as a result of our audit for your consideration:

Board Approval of Pension Payments

During benefit payment testing for the Police and Fire Retirement System, it was noted that a monthly pension payment being made to one participant (who had been a participant since 2006) never received board approval. Although there are procedures in place to obtain board approval for pension payment amounts to new participants, those procedures were not followed in the instance of this participant. We did not note any exceptions whereby members were receiving amounts different than that prescribed in the plan ordinance; however, we encourage the Systems to ensure that the procedures in place to obtain board approval for pension benefit payment are operating as intended on a consistent basis to ensure the propriety of payments to plan participants.

Alternative Investments

During our review of the current year board minutes for the retirement Systems, we noted many discussions concerning alternative investments. In the past, with the exception of the CAP investments, the Systems have only invested in publicly traded vehicles. As the Systems get larger, it is not unusual for them to add alternative investments to their portfolio. We suggest that the Systems fully review these investment opportunities and follow an established, formal due diligence process to document items such as the following:

- Assertions made by managers of the investments
- A detailed and independent analysis of financial projections
- A summarization of the reasons why the particular investment meets the Systems' investment objectives

Once an investment has been entered into, the agreement should be very clear regarding periodic reporting, annual audits, etc. Alternative investments can present challenges with respect to obtaining sufficient appropriate audit evidence in support of the existence and valuation assertions because of the lack of a readily determinable fair value for these investments and the limited investment information generally provided by the managers of the investments. Some of the processes that should be documented for audit purposes include:

- Documentation of management site visits or telephone calls
- Review by the Systems of periodic statements from the fund or trustee reflecting investment activity. This review should be very comprehensive and address discrepancies between actual performance and the performance set forth in earlier financial projections.

- Controls in place related to periodic draws and whether they meet an established timetable or have otherwise been deemed appropriate
- Use of an investment adviser to monitor the alternative investments, including the underlying investments, and/or to monitor markets or market indicators and their effect on the estimated fair values of the Systems' investment
- The availability of audited financial statements for the alternative investments and whether such statements are as of the same date as the Systems' financial statements, the timing of when such audited financial statements become available, and whether the audits are conducted by qualified and reputable independent audit firms

Document Storage

As mentioned in the past, the Systems are responsible for keeping many important documents and records that often cannot be recreated (i.e., board minutes, member files, financial records, etc.). Given the very limited space allocated to the Systems' offices, it is difficult to provide adequate storage. It is imperative that the Systems maintain storage space that is not only well organized, but is also secure and fireproof. We recommend that the Systems review their current operating space and document storage facilities in an effort to improve conditions in order to ensure the safety of the related records.

In the past, we have suggested looking into document imaging and understand the Systems have begun to research various options as they relate to different imaging systems. Document imaging would mitigate the need to retain paper files for extended periods. Documents would instead be scanned to create an electronic backup. Document imaging, while not necessarily a new technology, is being used increasingly as a means to provide a safe and effective back-up solution while maximizing space limitations.

We also continue to suggest that the Systems should consider various aspects of disaster recovery. If there were a fire or other catastrophe and the paper records and/or computer system were destroyed, the Systems should have a disaster recovery plan in place.

We would like to thank you and your staff again this year for your preparedness, cooperation, and assistance provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.